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SUBJECT: NUEVO LEON BUSINESS LEADERS SHARE DIVERSE PERSPECTIVES ON
THE ECONOMY

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¶1. (SBU) Summary. The Ambassador's September 2 - 4 trip to Monterrey offered him opportunities to receive varied perspectives on the state of the economy in Nuevo Leon, during sessions with the Group of Ten (leaders representing some of Mexico's largest industrial and financial conglomerates), the American Chamber of Commerce's Monterrey branch, and a woman's microfinance borrowers support group. All expressed hope that the economy would recover soon, but worried that it would not. In general, our interlocutors foresaw modest growth prospects in ¶2010. The Ambassador urged contacts to work with the USG to promote increased national and hemispheric competitiveness. End Summary.

Industrial Elite Criticizes Economic Policy

¶2. (SBU) During a luncheon discussion with the Group of Ten, member CEO's took the Calderon administration to task for failing to sufficiently promote economic growth and reacting slowly to eliminate microeconomic barriers. The automotive industry, both assembly and parts manufacturers, had stagnated, we were told, because companies were unable to get credit. Meanwhile, one executive complained that Calderon's efforts to stimulate the economy were woefully lacking, especially when compared with the steps other OECD countries had taken. A number of luncheon participants queried the Ambassador about the USG's plans for intensifying NAFTA cooperation and approving much needed border infrastructure projects such as the planned Laredo Colombia International Railway Bridge. For his part, the Ambassador emphasized the need to heighten competitiveness so that the U.S. and Mexico could better compete in the global economy.

Business Leaders Cautiously Optimistic

¶3. (SBU) On September 4, the Ambassador met with members of Monterrey's American Chamber of Commerce (AMCHAM) and other leading local business leaders. Although all admitted to having had a very rough year, most predicted a return to modest growth of 2-3% in the coming year. Many voiced reservations about increasing taxes at a time when they were already struggling to meet expenses. David Eaton of Kansas City Southern amplified that while tax increases are always a challenge, it was the uncertainty of Mexico's tax regime that was most problematic, particularly for a capital-intensive businesses. He added that

the rules regarding concessions in Mexico were also subject to unpredictable change, making planning difficult.

15. (SBU) Security continued to be a great concern for all present. Although participants were unanimous in their perception that security had continued to deteriorate over the past year, none stated that their company had actually curtailed operations due to current conditions.

Opportunities for Increased Demand

16. (SBU) Javier Trevino, Vice President of CEMEX and Chairperson of the Nuevo Leon Governor-elect's transition team, voiced optimism that stabilization in housing start statistics and ongoing public housing initiatives would increase demand for his firm's products. Others noted that the US "Clunkers for Cash" initiative would likely stimulate demand in the Mexican auto sector and that the Mexican government needed to embark upon similar stimulus initiatives.

Skepticism about the Long Run

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17. (SBU) Robert Chandler, Managing Partner of the law firm and consultancy Sanchez DeVanny, noted that, while there were positive economic signs among current difficult conditions, Mexico urgently needed fiscal reform. Serious structural reform, in his view was necessary to broaden the tax base, increase education and formal employment, and ensure that Mexico remains competitive in the future. He believed the political will to implement such reform was lacking, and this would inevitably put Mexico even farther behind on the path to development than other Latin American countries, such as Chile and Brazil. Chandler observed that Mexico - the second largest economy in Latin America by GDP - was responsible for less than 15% of the public equity issued over the last year.

Optimism at the Other End of the Scale

18. (SBU) Compartamos Banco Chairman Alcaro Rodriguez Arregui and Executive Vice President Carlos Danel spoke to the Ambassador at a weekly Women's Credit Group meeting for borrowers managing micro enterprises in a low-income Monterrey neighborhood. VP Danel emphasized that to best understand the business model of Compartamos Banco - a microcredit bank with a capitalization of approximately \$1.563 billion - one had to attend such a meeting and witness firsthand the culture of mutual support, timely repayment of debt, and responsible savings nurtured among the bank's clientele. He also credited the success of his institution to an astute screening process for borrowers, and a willingness to write off non-performing loans early. Bank customers told the Ambassador that loans provided by Compartamos Banco had helped stabilize their families and given them opportunities unavailable in the formal employment sector. (Note: Compartamos Banco was founded in 1990 in Mexico City, and made its first public offering in 2007. It currently has branches throughout the nation, and has grown to be Latin America's largest microcredit lender, serving more than 1.3 million clients, and employing over 7,000 people. The bank continues to grow, even during the current economic crisis: its

net income increased by 31.3% from 2Q08 to 2Q09. End note.)

19. (SBU) Comment: Common to all conversations was an acknowledgement of the real difficulties that Mexicans and Mexican enterprises face in today's tough economic environment, and their modest hopes for the coming year. Those representing Mexico's largest enterprises emphasized most strongly the need for stimulus, while others focused more on the need for clear, rational fiscal reform that would benefit, not handicap, the business community. All lamented the lack of a clear GOM strategy to deal with the current downturn and hoped that both a short range plan of assistance and a long range plan of reform would be forthcoming from their government.
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